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28TH ANNUAL PREMIERS' CONFERENCE

SPECIAL CANADIAN GRAINS PROGRAM FOR THE 1987 CROP YEAR

(Saskatchewan)

August 26-28, 1987
Saint John, New Brunswick

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FOR

THE 1987 CROP YEAR

GOVERNMENT OF SASKATCHEWAN

ANNUAL PREMIERS' CONFERENCE
AUGUST, 1987
ST. JOHN, NEW BRUNSWICK

Special Canadian Grains Program For the 1987 Crop Year

The Need for a 1987 Program

International grain prices continue to decline. Canadian farmers will be receiving a price for the 1987 crop which will be substantially lower than the already low prices being received for the 1986 crop.

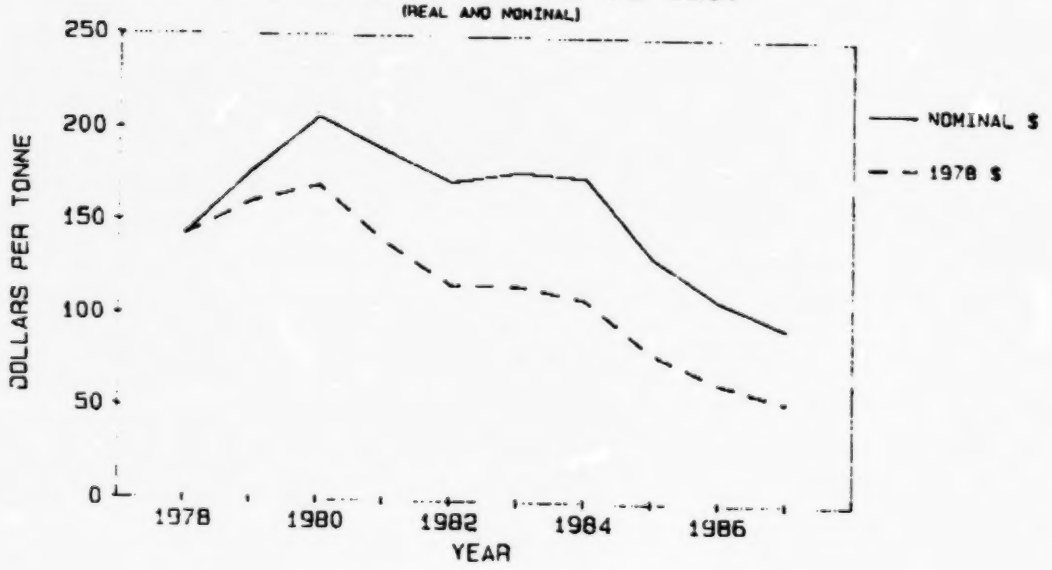
International grain prices are going down for a variety of reasons. The loan rate in the United States Farm Bill, which sets a floor price during periods of excess stocks, will be going down 5% from the 1986 levels. The United States has also aggressively used their Export Enhancement Program (EEP) to try and secure market share. The recent sale of one million tonnes of wheat to China, and past EEP sales to the USSR are examples of how they will use this program to try and market their surplus grains. In addition, Canadian farmers will face an additional decline due to the increased value of the Canadian dollar. The appreciation in the value of the Canadian dollar from 70¢ to 75¢ (US) has resulted in a 7.1% decline in grain prices.

All of these occurrences in the international grain markets and the money market have resulted in an average 18% drop in initial grain prices for the 1987 crop. These price reductions in Canadian Wheat Board grains, along with the substantial decline in non-board grains, especially the oilseeds, will result in reduced incomes for grain farmers in 1987.

Diagram 1 outlines the prices wheat producers have faced over the past few years. In nominal terms wheat prices have dropped 13.6% from 1986 levels and 46% from the high price of 1980. In real terms, prices are 32% of the price in 1980.

Grain farmers were very appreciative of the assistance provided by the Federal Government over the past few years. The Special Canadian Grains Program provided much needed assistance to farmers for the 1986 shortfall. The Western Grain Stabilization Act and payments under the Agricultural stabilization Act are also helping grain farmers.

DIAGRAM 1: FARMGATE PRICE OF WHEAT IN SASKATCHEWAN 1978 TO 1987
(REAL AND NOMINAL)



The injection of over $700 million from the Western Grain Stabilization Program along with the final payment from the Special Canadian Grains Program at spring seeding time helped western farmers to get their 1987 crop in the ground. But farmers still require assistance for the 1987 crop.

Even with this massive assistance the revenue from grains and oilseeds in Western Canada is expected to be below the 1981-84 average level by up to $1.6 billion in 1988, $2.2 billion in 1989, and $2.5 billion in 1990.

Grain farmers continue to face increasing problems. About 1100 Saskatchewan farmers are more than three years in arrears on Farm Credit Corporation (FCC) loans. It is estimated by FCC that 11.8% of Saskatchewan farmers are insolvent and that a further 28.3% have serious cash flow difficulties. Any Saskatchewan farmer with a significant amount of debt is in trouble.

There is a need for assistance. The Federal Government must support the principle of the Special Canadian Grains Program for the 1987 crop.

The Farm Income Problem

The world grain sector continues to be buffeted by adverse international trade conditions. Over-production resulting from high levels of production subsidies in many grain producing areas combined with reduced consumption in grain importing areas due to high domestic price policies has resulted in a continuing reduction in grain prices.

The price declines in the international grain market relate back directly to grain farmers given the reliance they have on the international marketplace. These lower prices also have serious effects on the Canadian economy. Any reduction in farmers' income has a major effect on the rest of the economy by reducing demand for goods and services.

There is a need to remember that the grain sector is very important to the Canadian economy. It earns a great deal of foreign exchange for the Canadian economy, and it also contributes to a positive balance of trade in our trade accounts.

The grain sector creates jobs across Canada in the manufacturing sector, in the transportation sector and throughout the economy. The crisis in the grain sector has an impact on all Canadians.

Agriculture has the following economic impact:

- annual sales of $20 billion
- transport jobs in British Columbia, Quebec and Maritimes
- 25 percent of Canada's coastal shipping
- 30 percent of Canada's positive trade surplus
- directly or indirectly, 15 percent of Canada's employment
- farm machinery jobs in Central Canada
- agricultural chemical and fertilizer plants
- rural communities

There are a number of ways to illustrate the impact of the international grain trade problems on grain farmers. First, lower grain prices reduce in a major way the total value of grain production. Although the numbers presented relate only to Saskatchewan the same factors are impacting on all grain farmers across Canada.

DIAGRAM 2: VALUE OF PRODUCTION IN SASKATCHEWAN 1978 TO 1987 IN REAL AND NOMINAL DOLLARS

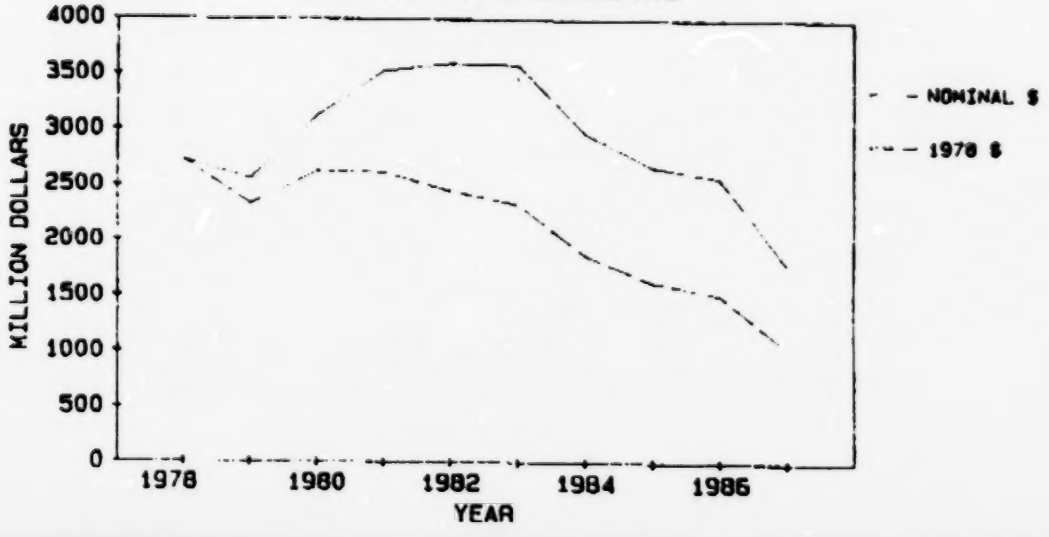
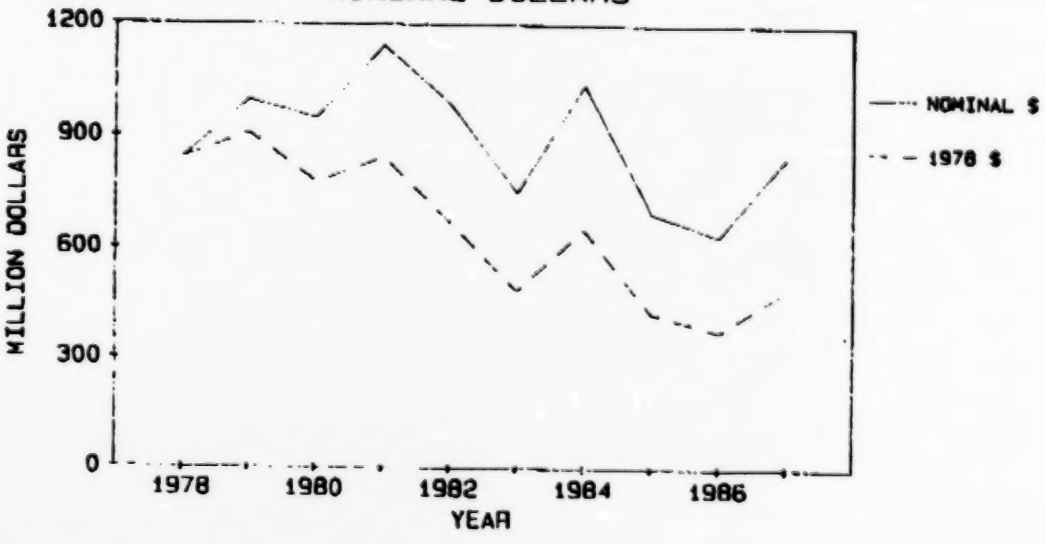


Diagram two outlines the nominal and real declines in the value of grain production in Saskatchewan in the last ten years. In indicates that in 1987 based on seeded acreages as indicated in the Statistics Canada survey and average yields, the value of production will decline 30 percent from 1986. 1986 was a year of record production and a return to more normal yields would lead to a decline in the value of production. However, the record level of production in 1986 also masked the severe problems caused by lower prices. It also indicates that the real terms, the 1987 value of production will only be 38 percent of the value of production in 1978.

Reduced grain prices also impact on realized net farm income. Diagram three outlines the realized net farm income in Saskatchewan over the past ten years. This shows that even with large payments from the Special Canadian Grains Program and the Western Grain Stabilization Program, farm income continues to be below the levels of a few years ago. In real terms, 1987 realized net farm income will be 54% of 1978 realized net farm income.

DIAGRAM 3: SASKATCHEWAN REALIZED NET FARM INCOME 1978 TO 1987 IN REAL AND NOMINAL DOLLARS



1987 realized net farm incomes are projected to be above 1986 levels. This is occurring as many of the payments made on the 1986 crop are being made in 1987. However, the value of production in 1987 is substantially below 1986 levels and will result in reduced incomes for the 1987 crop.

These numbers indicate that a continuing commitment to support the grain sector is required. Grain farmers are facing a period of substantially reduced value of production and grain incomes.

Reduced grain prices due to the international trade conditions also have a major impact at the farm level. For example, let us look at the impact on an average Saskatchewan grain farmer. This farmer has 1000 acres of land and seeds 700 acres, summerfallowing the remaining 300 acres. He grows 400 acres of wheat, 100 acres of barley and 200 acres of canola.

DIAGRAM 4: VALUE OF PRODUCTION ON A 1000 ACRE FARM IN SASKATCHEWAN 1978 TO 1987 IN REAL AND NOMINAL DOLLARS

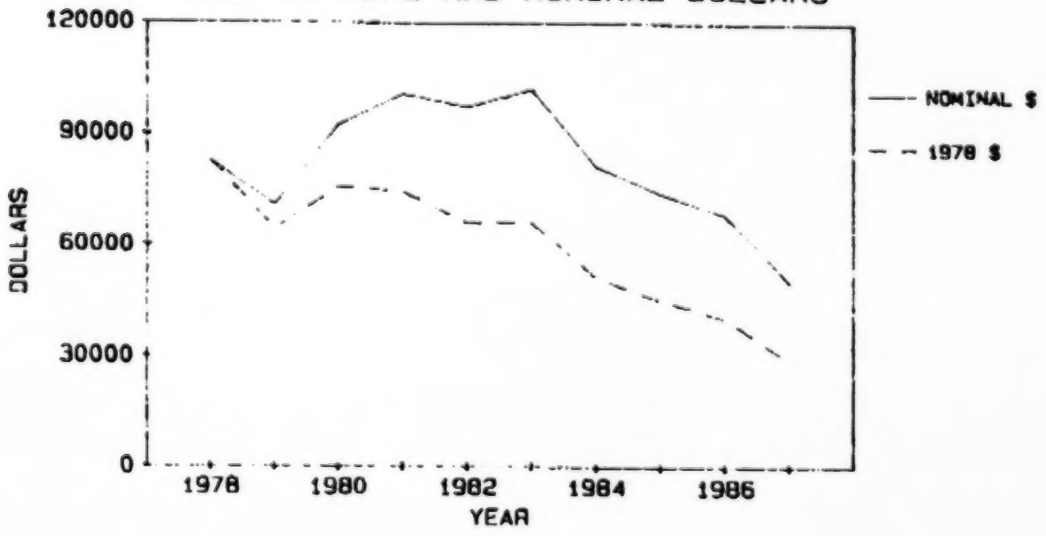


Diagram four outlines what has happened to his real and nominal grain income. Based on provincial average yields, and the average farmgate price in Saskatchewan, his accrued income peaked in 1983 and has declined steadily since then. In real terms the highest income year was 1978. 1987 real income is 35% of 1978 levels. In 1987, his accrued income of just over $50,000 is reduced 27 percent over 1986 levels and reduced 51 percent over the high of 1983. This decline is even more evident when the expenses paid to produce a crop on an average farm are included. With expenses of $50 per cultivated acre, the average farmer will make no money on his farming operation. Diagram four shows more than any other factor the need for continuing assistance to the grains sector.

The 1987 Special Canadian Grains Program

The continuing problems in the grains sector indicate that a Special Canadian Grains Program for 1987 is required. The value of grain production in Saskatchewan alone will drop $780 million. The more severe situation in 1987 over the 1986 situation and the continued decline in grain prices show that a larger payment is required for the 1987 crop.

Any payment has to be based on a combination of factors including the amount of the decline in grain prices, the amount of hurt occurring to farmers' incomes and the ability of the Federal Government to make a payment.

Not all these factors are known with certainty at this time. However, we do know the following:

- the value of production in Saskatchewan will fall by $780 million from 1986 to 1987. Saskatchewan produces 40 to 50% of the grain in Canada depending on how it is measured.

- net farm income without government payments will be negative for Western Canada in 1987.

- grain prices have declined, on average, by 18% from 1986 to 1987.

These factors indicate that a payment between $1.6 and 3.0 billion is required. This will compensate for some of the losses for the 1987 crop. It will partially compensate producers and make them somewhat more competitive with United States and EC farmers who are receiving much higher levels of subsidies.

Payment Mechanism

Any payment mechanism should try to meet the following objectives:

- compensate those that have suffered losses due to international trade conditions.
- have as little impact as possible on resource allocation decisions, and
- be administratively feasible.

The problem is that some of these goals are conflicting. A payment which compensates those producers who suffered losses due to international trade conditions, may not be neutral in regard to resource allocation. However, a payment that is resource neutral may make payment to producers who did not suffer losses. A program which attempts to be both resource neutral and compensate those who suffered losses may not be administratively feasible.

If a payment mechanism is not closely tied to international trade conditions, then producers of any agricultural commodity may make a claim for payment diluting the payment to those who need assistance.

A payment mechanism that may partially meet all of the above goals could work as follows:

1. A regional compensation value per acre could be determined for an area of similar production possibilities and productivity i.e. crop districts, rural municipalities or countries. This compensation value per acre would be based on the mix of crops in the local area, the level of productivity and the amount of "hurt" by commodity.

2. A payment schedule would be developed which indicated a dollar payment per cultivated acre for each local area.

3. When a payment was made farmers would apply by indicating their cultivated acres in each local area.

The advantage of this mechanism is that all relevent factors can be considered in the regional compensation value. A disadvantage is that this value would be complicated and would be difficult to explain to producers. However, any payment mechanism which is both fair and resource neutral will be complicated. It also have the advantage of basing the payment on cultivated acres which makes it easy for a farmer to calculate their own payment.

Timing of the Payment

The Federal Government should immediately announce its intention of implementing a program for the 1987 crop. It should also indicate that it will consult with producers and provinces to

develop the mechanisms for the payment. It should indicate that the size of the payment will be announced in the fall and that the payment will be made before seeding in 1988.

Summary

Saskatchewan calls on the Federal Government to implement a Special Canadian Grains Program for the 1987 crop. The payment should be between $1.6 and $3.0 billion. The Federal Government should announce its intention to develop a payout mechanism in consultation with producers and provinces. The size of the payment should be announced later this fall when grain prices will be known with more certainty. The payment should be made and completed by seeding time in 1988.